THE ROLE OF ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT IN INTERNATIONAL ENVIRONMENTAL GOVERNANCE

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ABSTRACT

The Organization for Economic Co-operation and Development initially set up to provide economic cooperation to its member nations, but has now expanded its role with the changing circumstances. It has now evolved to be a leader in issues relating to global environmental governance and sustainable development. This paper explores the transformation of the organization from an economic organization to a key player in environmental governance through corporate responsibility and green finance. The recent 2023 update of the OECD Guidelines focuses on integrating scientific targets, innovative financial mechanisms and effective policy tools in order to ensure visible improvements in environmental quality in its member nations. This paper also highlights major accomplishments achieved by OECD efforts in environmental governance such as reduction in green house gas emissions and significant improvement in air quality across some member nations. These positive environmental impacts have also helped in achieving economic objectives by creating job opportunities in the green sector. The paper also critically examines the challenges faced by the OECD in enforcement of policies among member nations which creates loopholes that further results in regulatory avoidance and inequities in access to climate finance. These challenges require strategic efforts in order to strengthen the influence and effectiveness of OECD's policy. Some measures can be adopted for the same such as strengthening the regulatory framework, active participation of the shareholders and promoting green finance. By strengthening its role, the OECD has the potential of becoming a major player in addressing international environmental challenges and promoting global agenda for sustainable development.

Keywords: Economic cooperation, global environmental governance, sustainable development, corporate responsibility, green finance

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(I) INTRODUCTION

The Organization for Economic Co-operation and Development (hereinafter referred as 'OECD') is an international organization established in the year 1961 to promote economic and social well being of people around the world.[2] The OECD consists of 38 member nations and also maintains engagement with various non member states in order to expand its reach. The OECD's headquarters are in Paris and there are liaison offices located at Washington DC, Tokyo and Mexico City along with regional centers at various locations to collect data and share ideas worldwide.[3]

The major member nations of this organization are United Kingdom, United States of America, Germany, Japan, France and Canada. As of now, India is not the member of OECD but engages closely with the organization as a partner. The administration of the OECD lies with its council which consists of one representative from each member state as well as from the European Union. There is an OECD Secretariat which is led by the Secretary General and committees focusing on different policy areas.[4] The guidelines set by the OECD are not legally binding upon the member nations but they influence domestic laws.

The OECD was set up as an organization to promote economic cooperation among its member states. It was established to help member countries to reconstruct their economies after the repercussions of World War II.[5] However with the changing needs, the scope of organization widened to other policy areas as well such as employment, trade, education and environment. The core idea of OECD is to effectively manage the current as well as future global issues. This can be done through collaboration among different nations and formulating policies that enhances the quality of life.

The OECD provides a common platform to its member nations where different governments can interact, share expertise and establish effective policy frameworks. It conducts detailed examination, publishes guidelines and lays down recommendations for effective enforcement.

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[2] About OECD, available at https://www.oecd.org/about/ (last visited Sep 10, 2025)
[3] Locations, available at https://www.oecd.org/en/about/locations.html (last visited Sep 10,2025)
[4] Organizational Structure, available at https://www.oecd.org/en/about/organisational-structure.html (last visited Sep 10, 2025)
[5] *Supra* note 2.

Such interactions and discussions help the member nations in developing their policies in order to promote economic stability and societal progress.

By working at global levels, OECD helps its member nations by balancing the regulatory framework, eliminating barriers and providing transparency at international level. All these contributions by the OECD help in encouraging advancement, just trade practices and smooth market operation. Besides economic issues, the OECD also plays a major role in enabling technological advancement, enhancing educational frameworks and promoting responsible corporate governance among enterprises.

This paper examines the evolution of OECD from an organization primarily focused on economic issues to becoming a key player in the area of international environmental governance. It includes a detailed consideration of the key initiatives and policy frameworks taken by the OECD. The paper also critically analyzes how these initiatives have helped in shaping domestic policies and international response with regard to environmental challenges.

(II) EVOLUTION OF THE OECD'S ENVIRONMENTAL ROLE

When OECD was set up in 1961, the primary goal was to focus on economic issues like economic recovery and growth of member nations. However, with the passage of time, environmental issues also became part of its agenda. The effects of rapid industrialization became a major concern for the member nations. They recognized that there is a need to additionally focus on certain environmental issues like pollution control and resource management along with economic concerns.[6]

The Stockholm Conference that took place in 1972 marked a turning point in the recognition of environmental issues on the global stage.[7] This conference not only highlighted environmental risks but also served as an agent for promoting international cooperation around sustainability. In

[6] Luca Bettarelli, Davide Furceri, Prakash Loungani, Jonathan D. Ostry & Loredana Pisano, *Economic Development, Carbon Emissions and Climate Policies* 3 (Bruegel, Brussels, 2025)

[7] "The 1972 Stockholm Conference on the Human Environment," available at: https://www.unep.org/resources/event/first-united-nations-conference-human-environment-stockholm-1972 (last visited Sep 13, 2025)

response, the OECD began establishing dedicated bodies like Environment Committee in to facilitate dialogue, sharing of environmental data and supporting the development of strategies that are aligned with sustainability goals across member countries.

In 1976, the OECD took the significant step forward by issuing the very first set of Guidelines for Multinational Enterprises (MNEs)[8].Although the original guidelines made limited direct reference to environmental matters, but they introduced groundbreaking principles for corporate responsibility that stretched beyond the national jurisdictions. As the scale and complexity of industrial activities accelerated globally, their potential for causing environmental harm also escalated.[9] This resulted in magnifying the OECD's role in advocating for sustainable and responsible corporate actions on the global stage.

Over the following decades, the OECD expanded and updated its Guidelines for Multinational Enterprises[10] to better integrate sustainability considerations. The 1990s proved to be essential as it introduced a new era of environmental engagement. The 1992 Earth Summit in Rio de Janeiro[11] emphasized on global action for sustainable development. In response to the same, the OECD initiated regular Environmental Performance Reviews[12], rigorous analysis in order to bring transparency and accountability to environmental policy implementation across member states. The OECD also played a key role in adoption and advocacy of the "polluter pays principle" in the year 2008, holding those responsible for pollution financially accountable and thereby incentivizing more responsible environmental behavior globally.[13]

Crossing the threshold into the 21st century, the OECD redefined its role from a purely economic organization to a leader in sustainability. The significant updates to its Guidelines in 2000 and 2011 firmly embedded environmental protection alongside human rights and supply chain accountability. By holding these companies accountable for measuring and publicly reporting their environmental impacts, the OECD played a major role by significantly influencing the

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8 *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* (OECD Publishing, Paris, 1976)
9 D. J. Plaine, "The OECD Guidelines for Multinational Enterprises," 11(2) The International Lawyer 339 (1977)
10 *Supra* note 8.
11 United Nations Conference on Environment and Development available at https://www.un.org/en/conferences/environment/rio1992 (last visited Sep 15,2025)
12 *Environmental Performance Review* available at https://www.oecd.org/en/publications/serials/oecd-environmental-performance-reviews_g1gha1c8.html (last visited Sep 15,2025)
13 "The Polluter Pays Principle: Definition, Analysis, Implementation" available at https://doi.org/10.1787/9789264044845-en (last visited Sep 18,2025)

trajectory of global corporate sustainable efforts.[14]

Reflecting the urgency of contemporary environmental challenges, the 2023 updates to the OECD guidelines[15] place a strong emphasis on climate action, ecosystem preservation and the promotion of corporate sustainability. Accompanying these normative frameworks, the National Contact Points[16] have been established in order to facilitate mediation, conduct oversight and foster multi-stakeholder participation, thus providing practical means to address grievances and ensure accountability.

The OECD does not possess the formal legal authority like some other international organizations but its transformation from a forum primarily focused on economic policy to a pivotal driver of environmental governance stands as a crucial milestone in international cooperation's evolution. This transition highlights the OECD's innovative capacity to set standards, encourage responsible behavior and lead member countries toward sustainable development objectives, paving the way for future collaborative efforts addressing complex global challenges.

(III) KEY ENVIRONMENTAL POLICIES AND INITIATIVES TAKEN BY OECD

The OECD has constructed a comprehensive framework of instruments and policies aimed at empowering its member states to enact strong environmental protections that coexist with sustainable economic growth:

A. OECD Guidelines For Multinational Enterprises[17]

Key among these innovations are the OECD Guidelines for Multinational Enterprises which were first issued in 1976. Although these guidelines are voluntary but they consist of highly

[14] John Gerard Ruggie & Tamaryn Nelson, "Human Rights and the OECD Guidelines for Multinational Enterprises: Normative Innovations and Implementation Challenges," 22(1) Brown Journal of World Affairs 99 (2015).
[15] *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* (OECD Publishing, Paris, 2023)
[16] https://cbsd.ilo.org/cbsd_initiatives/the-national-contact-points-ncps-for-the-oecd-guidelines-for-multinational-enterprises (last visited Sep 16, 2025)
[17] *Supra* Note 8.

influential set of recommendations that guide multinational corporations to conduct business responsibly. It also recommends enterprises to focus on other areas such as human rights, environment and employment. Its main aim was to promote economic and social wellness and minimize the negative impacts. As of now, these Guidelines have evolved considerably with the latest 2023 update[18], introducing more stringent requirements for companies to manage and disclose their environmental performance.

B. 2023 Update To The OECD Guidelines For Multinational Enterprises[19]

The 2023 revision requires businesses to embrace ambitious, scientifically grounded objectives to substantially reduce their green house gas emissions. The Guidelines also require that companies must conserve biodiversity and take full responsibility for overseeing and mitigating their environmental impacts across entire global supply chains. This revision reinforces the OECD's position that successful environmental response depends upon the combined efforts from both policy makers and business leaders to effectively deal with pressing ecological challenges.

C. National Contact Points[20]

The OECD has established National Contact Points (hereinafter referred as 'NCPs') in each member nations in order to ensure that these guidelines lead to real world action.[21] NCPs are independent bodies and serve as neutral facilitators and mediators by providing a platform where individuals and groups such as employees, effected communities and Non Governmental Organizations can voice their concerns regarding corporate conduct. The NCPs conduct careful investigations into the complaints, promote negotiation and regulation between parties and issue

[18] *Supra* note 15.
[19] *Ibid.*
[20] National Contact Points for Responsible Business Conduct available at https://www.oecd.org/en/networks/national-contact-points-for-responsible-business-conduct.html (last visited Sep 16,2025)
[21] *Supra* note 16.

advisory recommendations. NCPs enhance the enforceability and accountability of OECD Guidelines, ensuring that these guidelines are more than mere suggestions and lending accountability to voluntary standards.

D. Environmental Policy Stringency Index[22]

The OECD also supports policymaking through its Environmental Policy Stringency Index. It evaluates the stringency and effectiveness of environmental policies in each member country. This index contains a scale of 0 (less stringent) to 6 (most stringent). Such measurement facilitates cross-national comparisons, empowering policymakers to identify regulatory gaps and areas for improvement.[23] This comparative data-driven approach encourages the government to formulate policies that are not only environmentally effective but also economically efficient.

E. Environmental Performance Reviews[24]

The OECD's Environmental Performance Reviews provide detailed, country-specific analyses of environmental strategies and results, examining how effectively nations manage environmental risks and opportunities.[25] It highlights the exemplary practices and reveals areas requiring policy reinforcement or innovation. Every cycle of this review consists of performance of all OECD countries along with selected key partners.[26] These reviews foster transparency by allowing stakeholders to understand a country's environmental standing fully.[27] This shared experience among member nations to refine their environmental strategies and align their goals with evolving scientific evidence and international best practices.

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[22] T. Kruse et al., *Measuring Environmental Policy Stringency in OECD Countries: An Update of the OECD Composite EPS Indicator* 1703 OECD Economics Department Working Papers 1 (2022).
[23] *Ibid.*
[24] OECD Environmental Performance Reviews available at https://www.oecd.org/en/publications/serials/oecd-environmental-performance-reviews_g1gha1c8.html (last visited Sep 19,2025)
[25] *Ibid.*
[26] *Ibid.*
[27] Environmental Country Reviews available at https://www.oecd.org/en/topics/environmental-country-reviews.html (last visited Sep 19, 2025)

F. Green Finance

Financial innovation forms a cornerstone of the OECD's strategy towards sustainable development. The organization has taken an active leadership role in promoting green finance, including green bonds.[28] Green Bonds are specialized debt instruments that fund projects with environmental benefits like renewable energy installations, climate adaption initiatives and sustainable infrastructure development.[29] By providing clear standards and best practices for issuance and management of green bonds, the OECD helps ensure that these instruments achieve authentic environmental outcomes. This, in turn, boosts investor confidence, attracts significant private sector capital and accelerates the transition to low-carbon and climate-resilient economies.

G. Environmental Taxes And Emissions Trading Systems

In addition to its work on guidelines and sustainable finance, the OECD actively promotes market-based environmental policies such as environmental taxes and emissions trading systems. [30]Such environment taxes are applied on domains such as transport services and energy products.[31] OECD's research and policy guidance assist member countries in designing financial incentives that encourage pollution reduction, energy efficiency, and resource circularity. These market-oriented approaches are designed not only to promote environment sustainability but also ensure that economic activity remains resilient and dynamic.

Collectively, these policies and instruments embody the OECD's thorough and pragmatic method of advancing environmental governance on a global scale. The organization combines data analysis, policy guidelines, innovative market-based solutions and effective dispute resolution mechanisms to ensure that environmental commitments are not mere words and results in measurable progress. This strategy empowers member states and industries to monitor

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[28] "Sustainability-Linked Bonds: How to make them work in developing countries, and how donors can help", *OECD Development Perspectives*, No. 44 (OECD Publishing, Paris, 2024)

[29] "Green, Social and Sustainability Bonds in Developing Countries: The case for increased donor co-ordination", *OECD Development Perspectives*, No. 31 (OECD Publishing, Paris, 2023)

[30] *Methodological Guidelines for Environmentally Related Tax Revenue Accounts* (OECD Publishing, Paris, 2023)

[31] *Environmental Taxes* available at https://www.oecd.org/en/data/indicators/environmental-tax.html (last visited Sep 20,2025)

their progress, identify challenges and implement effective solutions toward sustainability objectives.

(IV) IMPACT ANALYSIS OF OECD'S INITIATIVES

The earlier discussed environmental policies and initiatives taken up by the OECD have resulted significant improvements in environmental concerns among its member nations. As per the observations made in the OECD Environmental Outlook 2023, the average exposure to fine particulate matter (PM2.5) which is a dangerous air pollutant strongly associated with respiratory and cardiovascular diseases, has declined by approximately 12.5% since 2000 among its member states.[32] This major improvement can be a result of the stricter pollution control measures and adoption of innovative clean technology by OECD's policy frameworks. Among member nations, Germany and Sweden stand out as leaders in this progress, effectively reducing air pollution through investments aligned with OECD recommendations.[33]

Data indicates that from 2005 to the recent years, the ratio of greenhouse gas emissions to GDP dropped by approximately 15–20 percent,[34] reflecting enhanced efficiency and cleaner economic activities. Denmark has emerged as a leading example by way of rapid expansion in wind energy development fueled by policy incentives that closely mirror OECD sustainability guidelines. Moreover, overall renewable energy consumption among OECD members has grown by nearly 40 percent from 2010 to 2020, highlighting the positive impact of both governmental policies and innovative green finance solutions, such as green bonds. In fact, the global green bond market has grown dramatically, exceeding $500 billion by 2023, enabling a massive influx of investment into climate resilience, renewable energy projects[35], and sustainable infrastructure.[36]

The 2023 revision[37] further strengthens accountability for environmental performance. The updated guidelines require companies to set actionable, science-based emission reduction targets

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[32] *OECD Environmental Outlook 2023 – Towards a Green and Resilient Economy* (OECD Publishing, Paris,2023)
[33] *Ibid.*
[34] A. Skryabin et al., *Green Growth in the OECD Countries* 14(20) Energies 6719 (2021)
[35] J. Amjad et al., *Revolutionizing Environmental Sustainability: The Role of Renewable Energy Consumption and Environmental Technologies in OECD Countries* 17(2) Energies 4559 (2024)
[36] Ibid
[37] *Supra* note 15.

and to conduct extensive environmental due diligence across their entire value chains. An important practical component of this framework is the National Contact Points (NCPs), which oversee dispute resolution and compliance enforcement domestically. In recent years, NCPs have resolved approximately 30% more complaints related to environmental issues, demonstrating growing corporate adherence and stakeholder confidence.[38]

Beyond environmental gains, these initiatives have generated significant socioeconomic benefits. Cleaner air has contributed to reduced healthcare costs and better quality of life, while the green economy has created millions of jobs in sectors like solar and wind energy. Countries such as Spain and France have experienced substantial employment growth within these emerging industries, reinforcing economic security alongside climate goals.

However, the OECD still faces challenges. Regulatory disparities among members sometimes enable companies to relocate polluting activities to jurisdictions with lower standards, a phenomenon known as the “pollution haven” effect. Additionally, while climate finance commitments have crossed the $100 billion mark annually[39], many vulnerable and developing nations struggle to access adequate support for adaptation and mitigation, hindering equitable global climate progress.[40]

New frontiers including advances in digital tools, data analytics, and growing public demand for sustainable products are reshaping the OECD’s environmental agenda. These developments create fresh opportunities and pressures for governments and businesses to innovate and deepen their commitments. It is clear that the OECD must continue to refine its frameworks and support emerging technologies to sustain momentum toward the goals of environmental protection and sustainable development.

The OECD’s integrated approach including combining policy guidance, financial innovation, enforcement mechanisms, and emerging technologies has delivered measurable environmental

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[38] *Supra* note 20.
[39] *Making Blended Finance Work for the Sustainable Development Goals*, 2018 available at https://www.oecd.org/development/financing-sustainable-development/development-finance-topics/making-blended-finance-work-for-the-sustainable-development-goals.htm (last visited Sep 18, 2025)
[40] *Climate Finance Provided and Mobilized*, 2023 available at https://www.oecd.org/environment/cc/financing-climate-action.htm (Last visited: Sept 17, 2025)

and social progress.[41] Looking to the future, the organization must focus on enhanced enforcement efforts and improved global cooperation in order to enhance its effectiveness in worldwide environmental governance.

(V) CONCLUSION AND FUTURE PERSPECTIVES

Over the years, the OECD played a major role in integrating economic development with environmental considerations. Although the organization was set up with the aim to promote economic growth among its member nations but it evolved over time after realizing that economic growth depends majorly on a good environmental management. Through the evolution, the OECD has now become a player in the area of international environmental governance through its various efforts such as expert policy advice, guiding principles and promoting innovation financial mechanisms.

Although the evolution from an economic organization to an organization focusing on global environmental issues has taken place but the path for environmental governance remains challenging. There are 38 member countries and each country adopts different enforcement practices which often lead to inconsistencies among them. This practice weakens the collective efforts which are the main aim of OECD and leads to "pollution haven" effect where regulated entities tend to relocate their operations to less strict jurisdictions.[42]

In recent years, the climate finance has been in discussions and it proves to be a good tool for economic as well as environmental up-gradation at international level.[43] However, there remain significant gaps in funding as vulnerable and developing nations lack such kind of funding which further results in gaps in the fair and effective implementation of the climate adaptation and mitigation projects.

Thus, there are various challenges which are faced by the OECD in the effective implementation

[41] Ulla Swarén, *State of the Environment in OECD Countries* 14(3) Ambio 182

[42] Garsous & Kozluk, *Foreign Direct Investment and the Pollution Haven Hypothesis: Evidence from Listed Firms* 1379 OECD Economics Department Working Papers 1 (2017).

[43] Climate Finance Provided and Mobilised by Developed Countries in 2013-2022, Climate Finance and the USD 100 Billion Goal (OECD Publishing, Paris, 2024)

of the principles at international level. There are certain recommendations which can help the OECD in expanding its leadership role in the international environmental governance.

(i) Empowering National Contact Points

Although the National Contact Points[44] have been set up by the OECD in its member nations but enhancing their authority, resources, and public profile is essential for environmental governance. These are independent bodies that provide with enforcement and mediation mechanisms that can hold multinational entities liable for their environmental impacts. They also help in building confidence among the parties that corporate actions align with agreed environmental standards.

(ii) Regulatory Balancing

There is a need for OECD to push for regulatory balancing among its member states. Balancing the rules among member nations helps in reducing the gaps that might be used by some companies to avoid stricter control in certain countries. When regulations are consistent throughout the countries, it ensures fair competition and also enhances the success of collective environmental goals.

(iii) Advancing climate finance equity and accessibility

The OECD plays an important role in promoting transparency in climate finance flows, making funding procedure straightforward and accessible, and encouraging increased contributions from wealthier nations. It also fosters collaboration with international banks and private sector investors, combining efforts to close the significant funding gaps that challenge global climate action.

(iv) Integrating guiding principles with enforceable laws

While OECD's guidelines provide important direction, but these remain voluntary and therefore

[44] *Supra* note 20.

limited in their power as they lack the enforceability of formal laws. In order to enhance effectiveness, efforts should be made to incorporate such guiding principles within national and regional laws. The combining of such principles with domestic laws enhances accountability and also helps governments to enforce environmental standards more efficiently.

(v) Participation of stakeholders in environmental governance

When we bring together the variety of stakeholders such as local citizens, entities and civil society organizations, it reinforces the legality of environmental policies. Such participation by the stakeholders ensures that the needs of the most impacted ones are taken into consideration. It leads to more extensive and balanced environmental outcomes.

(vi) Promoting innovative environmental financing

There is a need to promote continuous innovation in the environmental financing in order to build flexible and low carbon emitting economies. Various instruments like digital tools, modern financing approaches and data analyses helps in streamlining the environmental governance and ensures that funds are used effectively. Such combination of technology and financing if used effectively can provide lost lasting sustainable development.

The transformation of OECD from a purely economic organization to a player in environmental governance shows its ability to adapt to changing future needs. Through its various policies and initiatives, the OECD has provided a framework to effectively deal with economic growth and environmental governance issues. The environmental challenges are growing at a rapid rate globally with modernization. Thus, in near future, the leadership of OECD will become more essential. The proactive actions taken by the OECD along with international cooperation proves to be important for the collective progress at global level.

The development of a strong enforcement framework by the OECD will ensure that consistent rules and policies are applied across member nations. Also, the equitable access to the resources will help in filing the gaps existing between the developed and developing nations. The OECD can also transform international environmental goals into real actions by providing collaborations among governments, entities and society. All these efforts by the OECD towards will protect the planet and will also provide economic opportunities and environmental benefits to present as well as future generations.